

June 1993 10-9

SOUTHWESTERN BELL TELEPHONE COMPANY  
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. ~~GENERAL - Southwestern Bell Telephone Company (Telephone Company) is a wholly-owned subsidiary of Southwestern Bell Corporation (Corporation). The condensed financial statements have been prepared by the Telephone Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals and adjustments necessary for adoption of new accounting standards) necessary to present fairly the results for the interim periods shown. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules and regulations. Management believes that the disclosures made are adequate to make the information presented not misleading. Certain reclassifications have been made to the 1992 condensed financial statements to conform with the 1993 presentation. The results for the interim periods are not necessarily indicative of results for the full year. The financial statements contained herein should be read in conjunction with the financial statements and notes thereto included in the Telephone Company's 1992 Annual Report on Form 10-K.~~
2. ~~CHANGES IN ACCOUNTING PRINCIPLES - Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112), which require accrual of certain actuarially determined benefits as the benefits are earned or at the occurrence of an event that renders an employee inactive. Previously, these benefits were expensed as claims were incurred. The Telephone Company recognized the effect of the accumulated benefit obligation as a one-time charge to first quarter net income of \$1,840.8 million, including a deferred tax benefit of \$1,009.1 million. A regulatory asset associated with the accumulated benefits was not recorded by the Telephone Company as the timing and extent of recovery within the ratemaking process is uncertain. For the six months ended June 30, 1993, postretirement benefits recorded under Statement No. 106 were \$119.4 million, or approximately two times the expense under the claims incurred method. The adoption of Statement No. 112 did not materially affect ongoing postemployment benefit expense.~~

~~The Telephone Company also adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109), effective January 1, 1993, which requires the use of the liability method to calculate deferred income taxes. The Telephone Company recorded a \$431.4 million net reduction in its deferred tax liability, which was substantially offset by the establishment of a net regulatory liability. The cumulative effect of adopting Statement No. 109 was to decrease net income for the first six months of 1993 by \$8.6 million. Absent any change in statutory income tax rates or laws, management does not expect the adoption of Statement No. 109 to materially affect ongoing income before extraordinary loss and cumulative effect of changes in accounting principles.~~

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SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

RESULTS OF OPERATIONS (continued)

The Telephone Company's total operating expenses in the second quarter and first six months of 1993 were \$1.5 billion and \$3.0 billion, respectively.

The changes in total operating expenses in the second quarter and first six months of 1993 from the comparable periods in 1992 consist of the following increases by expense component (dollars in millions):

	<u>Second Quarter</u>		<u>Six-Month Period</u>	
Cost of services and products	\$ 4.5	0.7%	\$ 27.2	2.3%
Selling, general and administrative	34.1	7.8	7.3	0.8
Depreciation and amortization	.7	0.2	24.5	3.0
	<u>\$ 39.3</u>	<u>2.7%</u>	<u>\$ 59.0</u>	<u>2.0%</u>

Cost of services and products increased in the second quarter and first six months of 1993 due to demand-related increases in material and access expenses and annual compensation increases partially offset by lower expenses for switching system software license fees.

Selling, general and administrative expenses increased in the second quarter and first six months of 1993 compared to the same period of 1992 primarily due to the increase in postretirement benefits expense required by the adoption of Statement of Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106) and increases in other operating taxes. Six-month comparisons were also impacted by the recording in 1992 of a one-time charge for an offer of pension enhancements and related benefits to designated nonmanagement employees.

Depreciation and amortization increased in the first six months of 1993 due primarily to a change in plant level and composition. Expense in the second quarter of 1992 was increased due to recognition of the retroactive effect of the triennial represetation for the first six months of 1992, thereby affecting second quarter comparisons. A decrease in reserve deficiency amortization is also reflected in 1993 second quarter and first six-month results.

Interest expense decreased \$1.7 million or 1.6 percent and 6.5 million or 3.1 percent in the second quarter and first six months of 1993, respectively. The decrease was due primarily to the lower interest rates on refinanced debt and short-term commercial paper, partially offset by interest expense associated with the settlement of federal income tax audit issues in the second quarter of 1993.

June 1993 10-Q

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

RESULTS OF OPERATIONS (continued)

Other income decreased \$18.3 million and \$50.4 million in the second quarter and first six months of 1993, respectively. Lower interest rates reduced interest income and the amount of interest during construction capitalized in property, plant and equipment. Other income was also reduced by increases in legislative advocacy expenses in Texas. Six-month comparisons are also impacted by the interest income associated with the settlement of federal income tax audit issues in the first quarter of 1992.

Federal income tax expense increased \$4.3 million or 4.7 percent and \$17.4 million or 9.9 percent in the second quarter and first six months of 1993, respectively, due primarily to the increase in income before income taxes.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Developments:

Texas

On October 7, 1992, the Office of Public Utility Counsel (OPUC) filed a petition for inquiry into the rates of the Telephone Company, alleging that unforeseen and unusual events have occurred since the Texas Public Utility Commission (TPUC) approved the incentive regulation agreement in November 1990. OPUC alleged that the Telephone Company realized reductions in its cost of service and increases in revenues, resulting in excess annual earnings of approximately \$234 million, which the sharing mechanism failed to capture. The Telephone Company filed a motion to dismiss on November 4, 1992. On July 8, 1993, the TPUC issued an order granting the Telephone Company's motion to dismiss the OPUC petition.

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Postretirement Benefits Other Than Pensions

An order was issued by the Missouri Public Service Commission on January 12, 1993, which indicates that the Telephone Company should continue to account for postretirement benefits for ratemaking purposes under the current cash basis, pending further consideration of the issue. Hearings on the Statement No. 106 issue concluded August 3, 1993, and a decision is expected in the fourth quarter of 1993.

In December 1991, the Federal Communications Commission (FCC) issued an order requiring all local exchange carriers to adopt Statement No. 106 effective January 1, 1993, for interstate regulatory accounting and prescribed the amortization method for recognition of the transition obligation. On June 1, 1992, the Telephone Company filed a Direct Case to urge the FCC to allow an increase in the Telephone Company's price caps for the incremental interstate costs resulting from the accrual accounting required by Statement No. 106 (exogenous treatment). On January 22, 1993, the FCC issued an order denying

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS (continued)

Regulatory Developments (continued):

exogenous treatment for these incremental costs stating that the local exchange carriers had not met the burden of proof that these costs were beyond their control. In February 1993, the Telephone Company joined with BellSouth, Bell Atlantic, NYNEX, GTE, Rochester and SNET in appealing the FCC's January 22, 1993 order.

In its Annual Access Tariff Filing on April 2, 1993, the Telephone Company requested exogenous treatment of the transition obligation. On June 23, 1993, the FCC released an order deferring a final decision on interstate rate recovery of Statement No. 106 costs until certain issues are investigated in more detail. The order allowed the Telephone Company's filed rates, which include a portion of the transition obligation, to go into effect on July 2, 1993, subject to refund of amounts under investigation, plus interest, should the FCC conclude that recovery is not warranted.

Management cannot estimate the ultimate timing and extent of expense recovery for accrued postretirement benefits at this time.

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Access Competition

On August 3, 1993, the Federal Communications Commission (FCC) adopted an order, which is expected to be finalized and released within a month, requiring certain local exchange carriers (LEC), including the Telephone Company, to provide expanded interconnection for switched access transport services. The order permits independent parties to physically collocate their equipment within the LEC's central office, and interconnect their own transmission facilities to a LEC's network. This will facilitate other parties' ability to compete with the Telephone Company for the transport of typical telecommunications traffic between carriers' switching offices and between large users' locations. Under the order, LEC's will be allowed additional flexibility in pricing competitive services. Tariffs are required to be filed on November 18, 1993, to be effective February 15, 1994.

The Telephone Company believes the order will have a negative impact on future interstate revenues; however, at this time, the Telephone Company is unable to determine the extent of the impact on its future financial results.

Other Business Matters:

The Telephone Company's areas of operation in Missouri and Kansas have been affected by severe flooding in July and August of 1993. Management's preliminary assessment of the damage caused by the flooding indicates that required repairs and capital expenditures could approximate \$40 million, with a potential impact on third quarter net income of \$10 million to \$20 million. A complete estimate of total costs involved is not possible until the affected facilities can be physically examined.

# FORM 10 - Q

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the period ended March 31, 1993

or

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Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number 1-2346

## SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri

I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101-2070

Telephone Number: (314) 235-9800

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H (1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_\_

Mar. 1993 10-Q

SOUTHWESTERN BELL TELEPHONE COMPANY  
NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

3. POSTRETIREMENT BENEFITS (continued)

In March 1993, the Telephone Company contributed \$132.3 million into the CBVERA trusts to be ultimately used for the payment of postretirement benefits. The Telephone Company also funds postretirement life insurance benefits at an actuarially determined rate. Assets consist principally of stocks and U.S. government and corporate bonds.

Statement No. 106 requires certain disclosures to be made of components of net periodic postretirement benefit cost and a reconciliation of the funded status of the plans to amounts reported in the balance sheets. Since the funded status of assets and obligations relates to the plans as a whole, this information is not presented for the Telephone Company. The Telephone Company recognized postretirement benefit cost for the three months ended March 31, 1993, of \$63.9 million. Under the claims incurred method, expense would have been approximately \$33 million. At March 31, 1993, the amount included in postemployment benefit obligation for postretirement benefits was \$2,649.4 million.

Certain actuarial assumptions were used by the Corporation to calculate postretirement costs under Statement No. 106. The accumulated postemployment benefit obligation (APBO) was determined using an assumed discount rate of 7.5 percent, a rate of future compensation increases of 4.6 percent, and an expected long-term rate of return on assets of 8.0 percent. The assumed medical cost trend rate in 1993 is approximately 12.0 percent, decreasing gradually to 6.0 percent by 2005, prior to adjustment for cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost rate in 1993 is 7.25 percent reducing to 5.5 percent in 2000. Raising the annual medical and dental cost trend rates by one percentage point would increase net periodic postretirement benefit cost for the three months ended March 31, 1993 by approximately 7.6 percent.

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4. ~~POSTEMPLOYMENT BENEFITS - Effective January 1, 1993, the Telephone Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112). Statement No. 112 requires accrual of disability pay, workers' compensation and medical benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period. These expenses were previously recognized as the claims were incurred. A first quarter charge to net income of \$60.1 million, which includes a deferred tax benefit of \$32.9 million, is included in the cumulative change in accounting principles in the 1993 Condensed Statement of Income. Management does not anticipate that Statement No. 112 will materially affect ongoing postemployment benefit expense.~~

Mar. 1993 10-Q

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

RESULTS OF OPERATIONS (continued)

Selling, general and administrative expenses decreased in the first quarter of 1993 compared to the same period of 1992 primarily due to the recording in 1992 of a one-time charge for an offer of pension enhancements and related benefits to designated nonmanagement employees. Partially offsetting this decrease was the increase in postretirement benefits expense required by the adoption of Statement of Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (Statement No. 106).

Depreciation and amortization increased in the first quarter of 1993 compared to the same period of 1992 due to the implementation of revised depreciation rates resulting from the triennial represetion process and by a change in plant level and composition. A decrease in reserve deficiency amortization is also reflected in 1993 results.

Interest expense decreased \$4.8 million or 4.6 percent during the first quarter of 1993 as compared to the same period of 1992 due primarily to lower interest rates on short-term obligations and on long-term debt refinanced in 1993 and 1992.

The primary factor contributing to the \$32.1 million or 111.8 percent decrease in other income for the first quarter of 1993 as compared to the same period of 1992 was the interest income associated with the settlement of federal income tax audit issues in the first quarter of 1992.

Federal income tax expense increased \$13.1 million or 15.7 percent in the first quarter of 1993 as compared to the same period of 1992 due primarily to the increase in income before income taxes.

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OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

Regulatory Developments:

Postretirement Benefits Other than Pensions

The adoption of Statement No. 106 for ratemaking purposes is currently being addressed by regulatory authorities in most of the Telephone Company's jurisdictions.

An order was issued by the Missouri Public Service Commission (MPSC) on January 12, 1993, which indicates that the Telephone Company should continue to account for postretirement benefits for ratemaking purposes under the current cash basis, pending further consideration of the issue. Hearings are scheduled for July and August of 1993.

Mar. 1993 10-Q

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS (continued)

Regulatory Developments (continued):

The Arkansas Public Service Commission (APSC) issued an order effective March 25, 1993, adopting Statement No. 106 for ratemaking purposes and allowing amortization of the transition obligation over a period of up to 20 years. The order requires that all postretirement benefit amounts recovered through rates be placed in an external trust, unless special approval for internal funding is granted by the APSC.

On March 24, 1993, the Texas Public Utility Commission (TPUC) issued a ruling allowing the Telephone Company to adopt accrual accounting for postretirement benefits, including the transition obligation. If the accrual method is elected, a utility is required to begin recording expense upon adoption, but will not receive rate recognition until its next rate case. The transition obligation is to be amortized over a 20-year period. The ruling requires that postretirement benefit amounts recovered through rates be placed in an irrevocable external trust.

In December 1991, the Federal Communications Commission (FCC) issued an order requiring all local exchange carriers to adopt Statement No. 106 effective January 1, 1993, for interstate regulatory accounting and prescribed the amortization method for recognition of the transition obligation. On June 1, 1992, the Telephone Company filed a Direct Case to urge the FCC to allow an increase in the Telephone Company's price caps for the incremental interstate costs resulting from the accrual accounting required by Statement No. 106 (exogenous treatment). On January 22, 1993, the FCC issued an order denying exogenous treatment for these incremental costs stating that the local exchange carriers had not met the burden of proof that these costs were beyond their control. In February 1993, the Telephone Company joined with BellSouth, Bell Atlantic, NYNEX, GTE, Rochester and SNET in appealing the FCC's January 22, 1993 order denying exogenous treatment of the incremental interstate costs.

In its Annual Access Tariff Filing on April 2, 1993, the Telephone Company requested exogenous treatment of the transition obligation. This filing is pending.

Management cannot estimate potential expense recovery, if any, for accrued postretirement benefits at this time.

1992

## Form 10-K

### Securities and Exchange Commission

Washington, D.C. 20549

(Mark one)



**Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934 (Fee Required)**

For the fiscal year ended December 31, 1992

or



**Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934 (Fee Required)**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file Number 1-2346

## SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri  
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101-2070  
Telephone Number 314-235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None

**THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (✓)

Dollars in Millions

Starting in 1990, the Telephone Company's match of employee contributions is being fulfilled with the Corporation's common stock allocated from two leveraged Employee Stock Ownership Plans and from purchases of the Corporation's stock in the open market. The costs relating to these savings plans were \$48.6, \$53.5 and \$57.4 in 1992, 1991 and 1990, respectively.

**Voluntary Retirement Programs** In 1991, the Corporation amended the pension plan for management employees and offered incentives for managers of selected subsidiaries, including the Telephone Company, to retire or resign effective December 30, 1991. Approximately 3,500 managers participated in the program in 1991. Plan assets were designated for the settlement of the pension obligations of those managers who elected to receive their benefits in lump sum amounts. The voluntary management retirement program resulted in a charge to 1991 net income of approximately \$28 for the Telephone Company.

As a result of a March 1992 agreement with the Communications Workers of America, the Telephone Company offered a limited early retirement plan to designated nonmanagement employees. Five years were added to employees' age and net credited service to determine service pension eligibility. Eligible employees who elected to participate in the plan had three years added to their actual age and service for computation of pension amounts, received pension band increases ranging from 3 percent to 9 percent, depending on their age, and a pension supplement ranging from 5 percent to 25 percent, based upon years of service. Approximately 1,200 nonmanagement employees participated in this offer. The plan resulted in a first-quarter 1992 charge to net income of approximately \$24.

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**Postretirement Benefits** The Telephone Company provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefit costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1992, 1991 and 1990, the cost of providing these postretirement benefits was \$102.6, \$95.1 and \$85.0, respectively.

Effective January 1, 1993, the Telephone Company will be required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits.

It is the intent of the Telephone Company, in implementing Statement No. 106, to recognize immediately a reduction in net income for the accumulated obligation for postretirement benefits, net of the fair value of plan assets (transition obligation). Management currently estimates the transition obligation to be between \$2,600 and \$3,000, with a related deferred income tax benefit between \$900 and \$1,100.

Dollars in Millions

In addition to the transition obligation, management estimates that recurring annual expense will be approximately two and one-half times the amount recognized in 1992. As the timing and extent of expense recognition within the ratemaking process in the Telephone Company's regulatory jurisdictions are uncertain, the future net income impact of Statement No. 106 cannot be determined.

**Postemployment Benefits** In November 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (Statement No. 112). Statement No. 112 requires accrual of postemployment benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period. Under its benefit plans, the Telephone Company provides employees varying levels of disability pay, workers' compensation and medical benefits under specified circumstances. Statement No. 112 must be adopted by January 1, 1994, although earlier adoption is permitted.

The Telephone Company intends to adopt Statement No. 112 on January 1, 1993, and estimates that a liability of approximately \$100, with a related tax benefit of approximately \$35, will be accrued for existing postemployment benefit obligations at that time. Ongoing expense, which will vary according to actual claims experience, cannot be determined currently.

### 3. Income Taxes

The components of income tax expense are as follows:

	1992	1991	1990
<b>Federal:</b>			
Current	\$ 489.4	\$472.8	\$423.8
Deferred--net	(100.7)	(69.5)	(13.7)
Amortization of investment tax credits	(72.0)	(86.7)	(88.1)
	316.7	316.6	322.0
<b>State and local:</b>			
Current	42.2	34.2	30.8
Deferred--net	1.7	(.5)	(2.5)
	43.9	33.7	28.3
<b>Total</b>	<b>\$ 360.6</b>	<b>\$ 350.3</b>	<b>\$ 350.3</b>

The components of deferred federal income tax expense are as follows:

	1992	1991	1990
Depreciation	\$ (23.7)	\$ (62.5)	\$ 17.9
Employee benefits	(70.0)	3.8	(3.5)
Other--net	(7.0)	(10.8)	(28.1)
<b>Total</b>	<b>\$ (100.7)</b>	<b>\$ (69.5)</b>	<b>\$ (13.7)</b>

1991

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

(Mark one)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For fiscal year ended December 31, 1991

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-2346

SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri  
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101-2070  
Telephone Number 314 235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes.....✓ No.....

Indicate by check mark if disclosure of delinquent filers pursuant to Items 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (✓)

Dollars in Millions

strengthen the employee's financial security at retirement by providing an incentive to save and invest regularly. Under the savings plans, the Telephone Company matches a stated percentage of eligible employee contributions, subject to a specified ceiling. Starting in 1990, the Telephone Company's match of employee contributions is being fulfilled with the Corporation's common stock allocated from two leveraged Employee Stock Ownership Plans and from purchases of the Corporation's stock in the open market. The costs relating to these savings plans were \$53.5, \$57.4 and \$43.5 in 1991, 1990 and 1989, respectively.

#### Voluntary Retirement Program

In September 1991, the Board of Directors of the Corporation approved terms of a voluntary retirement program for management employees of the Corporation and selected subsidiaries, including the Telephone Company. As an incentive for managers to retire or resign effective December 30, 1991, special retirement benefits were offered to managers in the form of a five-year, 15 percent supplemental pension benefit and a lump-sum payment option.

The Corporation also amended its management pension plan to provide all managers with an additional five years of age and service for purposes of computing a frozen level of pension benefit. This level of benefit is available to management employees until the frozen benefit is exceeded by a pension benefit calculated using an employee's actual age and service. Managers whose combined years of age and service totaled 65 on December 30, 1991, became eligible for an immediately payable service pension.

The plan amendments, special retirement benefits, partial plan curtailments and partial plan settlements did not result in a significant impact on pension cost for 1991. Plan assets were designated for the settlement of the pension obligations of those managers who elected to receive their benefits in lump-sum amounts. The voluntary retirement program, in its entirety, resulted in a fourth quarter charge to net income of approximately \$28 for the Telephone Company.

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#### Postretirement Benefits

The Telephone Company also provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefit costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1991, 1990 and 1989, the cost of providing these postretirement benefits was \$95.1, \$85.0, and \$72.4, respectively.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires benefit costs to be recognized on an accrual basis as benefits are earned by employees, and is required to be implemented by 1993, although earlier adoption is permitted. The Telephone Company's expected date of adopting the statement has not been determined.

In implementing the statement, an employer may immediately recognize the accumulated obligation for postretirement benefits at the date of implementation or amortize the amount over a period not to exceed the greater of the average remaining service period of plan participants or 20 years. Management estimates its accumulated obligation for postretirement benefits to be between \$2,600 and \$3,000. The Telephone Company is currently evaluating the alternatives for recognizing this obligation.

The Telephone Company has completed a preliminary analysis of the statement. While the postretirement benefit expense increase may be material, a specific estimate cannot be made at this time. The magnitude of the financial statement impact depends on the implementation option chosen, level of expense recognition within the ratemaking process and certain revenue-sharing agreements in the Telephone Company's regulatory jurisdictions, as well as the possibility of amendments to the Telephone Company's postretirement benefit plans. Based upon the preliminary analysis, however, the Telephone Company anticipates that Statement No. 106 will increase this annual expense by approximately two to three times the amount reflected under the current method of accounting.

### 3. Income Taxes

The components of income tax expense are as follows:

	1991	1990	1989
Federal:			
Current	\$472.8	\$423.8	\$402.9
Deferred-net	(69.5)	(13.7)	(8.2)
Amortization of investment tax credits	(86.7)	(88.1)	(98.8)
	316.6	322.0	295.9
State and local:			
Current	34.2	30.8	24.3
Deferred-net	(0.5)	(2.5)	5.5
	33.7	28.3	29.8
Total	\$ 350.3	\$ 350.3	\$ 325.7

The components of deferred federal income tax expense are as follows:

	1991	1990	1989
Depreciation	\$ (62.5)	\$ 17.9	\$ (11.1)
Other-net	(7.0)	(31.6)	2.9
Total	\$ (69.5)	\$ (13.7)	\$ (8.2)

The Telephone Company does not provide deferred income taxes if its regulated rates to customers are based on taxes currently payable ("flow-through" treatment). The amounts of income tax timing differences for which deferred tax liabilities have not been provided were approximately \$382.5, \$450.7 and \$522.3 at December 31, 1991, 1990 and 1989, respectively. The timing differences accorded flow-through treatment result principally from portions of allowance

# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

(Mark one)



QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1991

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-2346

## SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri  
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101-2070  
Telephone Number 314 235-9800

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF  
SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET  
FORTH IN GENERAL INSTRUCTION H(1) (a) AND (b) OF FORM 10-Q AND  
IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE  
FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes...☒..... No.....

10-Q Sept. 1991

SOUTHWESTERN BELL TELEPHONE COMPANY

Item 2. Management's Discussion and Analysis of Results of Operations.  
(CONTINUED)

Access Competition (cont'd.)

The Telephone Company filed its comments on the NPRM with the FCC on August 6, 1991, and reply comments on September 20, 1991. In its filings, the Telephone Company noted that demand for switched and special access is interdependent. The Telephone Company urged the FCC to consider and resolve all related public interest impacts before adopting any changes in either switched or special access.

The Telephone Company believes that the rules proposed in the NPRM will have a negative impact on future revenues. However, the amount and timing of the impact cannot be assessed until a final order which resolves numerous questions is issued. The Telephone Company urged the FCC not to adopt the tentative conclusions which could significantly reduce Telephone Company access revenues. If the FCC were to adopt its NPRM in a manner consistent with its proposal, that action could, given certain assumptions, reduce total Telephone Company access revenues by as much as \$332 million to \$696 million over the first five years under the new rules.

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Accounting for Postretirement Benefits Other than Pensions

As previously discussed on page 24 of the Telephone Company's 1990 Annual Report on Form 10-K, the Financial Accounting Standards Board issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (Statement No. 106) in December 1990. Statement No. 106 will change the manner in which the Telephone Company accounts for postretirement benefits by requiring expense to be recognized on an accrual basis as benefits are earned by employees. Currently, expense is recognized on a cash basis as claims are incurred. Adoption of Statement No. 106 is required on or before January 1, 1993.

On September 20, 1991, the Telephone Company filed with the FCC its notification of intent to adopt Statement No. 106 for interstate regulatory accounting purposes effective January 1, 1993. This notification requests that the FCC incorporate Statement No. 106 into its Uniform System of Accounts. Approval of a change in accounting standard will take place automatically 90 days after the filing of the notification of intent unless the FCC informs the Telephone Company to the contrary. Should the FCC deny the Telephone Company's request, a Notice of Proposed Rulemaking may be issued. All major local exchange carriers are required to make similar filings with the FCC for adoption of significant accounting changes. The Telephone Company's filing with the FCC does not preclude the Corporation from adopting Statement No. 106 prior to January 1, 1993.

The magnitude of the financial statement impact of adoption of Statement No. 106 depends on the level of expense recognition within the ratemaking process and certain revenue-sharing agreements in the Telephone Company's regulatory jurisdictions as well as the possibility of amendments to postretirement benefit plans. Because of these uncertainties, management is unable to reasonably estimate the financial statement impact of adopting Statement No. 106 at this time.

1990

## FORM 10-K

### SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

(Mark one)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For fiscal year ended December 31, 1990

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-2346

## SOUTHWESTERN BELL TELEPHONE COMPANY

Incorporated under the laws of the State of Missouri  
I.R.S. Employer Identification Number 43-0529710

1010 Pine Street, St. Louis, Missouri 63101  
Telephone Number 314 235-9800

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF SOUTHWESTERN BELL CORPORATION, MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION J(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes.....☒..... No.....

Dollars in Millions

made to the pension trust in excess of its cumulative amount of pension cost recognized was \$501.5 and \$432.4, respectively. Based on actuarial valuations of each plan, the fair value of each plan's assets exceeded their estimated actuarial projected benefit obligation at December 31, 1990 and 1989.

The projected benefit obligations for 1990 and 1989 were determined using a discount rate of 7.5 percent and a composite rate of compensation increase of 6.7 percent.

Substantially all employees are eligible to participate in voluntary savings plans sponsored by the Corporation which are designed to strengthen the employee's financial security at retirement by providing an incentive to save and invest regularly. Under the savings plans, the Telephone Company matches a stated percentage of eligible employee contributions, subject to a specified ceiling. Starting in 1990, the Telephone Company's match of employee contributions is being fulfilled with the Corporation's common stock allocated from two leveraged Employee Stock Ownership Plans and from purchases of the Corporation's stock in the open market. The costs relating to these savings plans were \$57.4, \$43.5 and \$38.1 in 1990, 1989 and 1988, respectively.

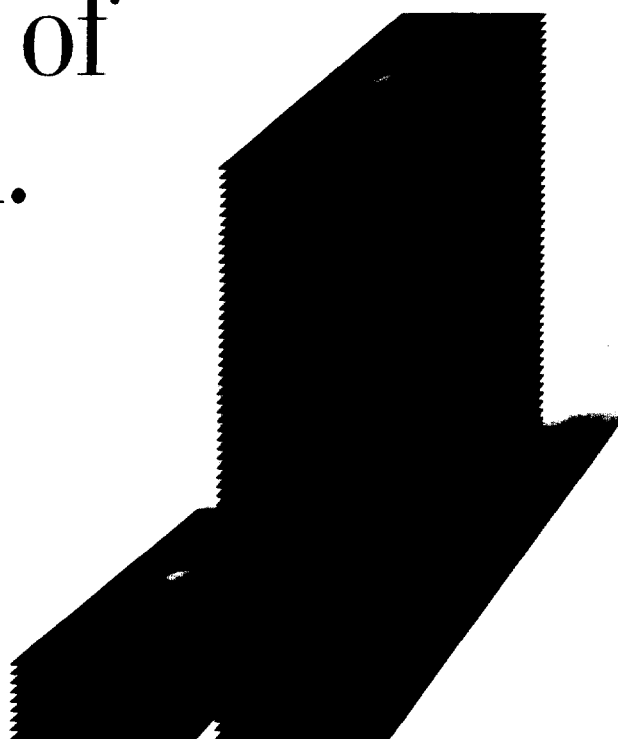
The Telephone Company also provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefits costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1990, 1989 and 1988, the cost of providing these postretirement benefits was \$85.0, \$72.4 and \$73.9, respectively.

In December 1990, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("Statement No. 106"). Statement No. 106 requires benefit costs to be recognized on an accrual basis as benefits are earned by employees, and is effective beginning in 1993, although earlier adoption is permitted. The Telephone Company's expected date for adopting the statement has not been determined.

In implementing Statement No. 106, an employer may immediately recognize the accumulated obligation for postretirement benefits at the date of implementation or delay the recognition over a period not to exceed the greater of the average remaining service period of plan participants or 20 years. A choice between these alternatives is currently under study by the Corporation.

The increase in expense from implementing Statement No. 106 may be material; however, a current estimate is not available. The extent of the expense increase is influenced by the level of expense recognition within the ratemaking process and certain revenue-sharing agreements in regulatory jurisdictions of the Telephone Company.

Southwestern Bell  
builds value. Your \$100  
investment has grown to  
\$733 in 10 years. And we  
are ready for another  
decade of  
growth.



\$100  
January 1,  
1984

\$733\*  
December 31  
1993



**Southwestern Bell**  
Corporation

## Management's Discussion and Analysis. continued

Dollars in millions except per share amounts

\$100.6 effective September 1992 (of which \$24.5 relates to wide-area calling plans which had already been implemented when the order was issued, and \$7.4 relates to expanded wide-area calling plans implemented during 1993 through March 1994), partially offset by a positive annual revenue adjustment of \$7.8 to compensate the Telephone Company for its investment of \$84 over the next five years for network modernization. The order would also lower the allowed return on equity from 14.25 percent to 12.20 percent. In addition, the order denies recovery of depreciation expense associated with certain network assets and changes the regulatory method of accounting for pension expense. These actions could result in a maximum one-time reduction in net income of approximately \$36.

In September 1992, the Telephone Company appealed to the Oklahoma Supreme Court which suspended the effectiveness of the entire order pending final disposition. This appeal is still pending.

The Telephone Company is contesting all aspects of the OCC's actions. Although it is unable to predict the outcome of the proceeding at this time, management believes that the OCC-ordered refund of revenues collected before the date of the OCC's August 1992 order is illegal under Oklahoma law, and will be overturned by the Court. The Court may require the Telephone Company to implement some portion of the annual rate reductions indicated in the OCC order. Management is unable to determine the outcome of the remaining portions of the OCC order. Ultimate resolution of the entire OCC order is not expected to have a material impact on the Corporation's financial results.

In 1986, the OCC made an inquiry into the effects of the Tax Reform Act of 1986 on the Telephone Company. As a result, in October 1989, the OCC concluded that the Telephone Company had a revenue surplus of \$27.5, and required the Telephone Company to invest this surplus, together with interest, to upgrade its network in Oklahoma rather than refund it to customers. In addition, prospective annual rate reductions totaling \$7.8 were ordered, effective October 1989.

In October 1989, the OCC order was appealed to the Oklahoma Supreme Court by various parties, including the Telephone Company. In December 1991, the Court upheld the portion of the OCC's decision that required the Telephone Company to invest the revenue surplus in network upgrades. The Court also determined that the OCC's finding of a depreciation reserve deficiency was not supported by substantial evidence and that the OCC's treatment of employee severance payments and cash working capital analysis was inappropriate. The OCC has not reconsidered the remand issues. A prehearing

conference has been scheduled for April 1994. Although the final outcome of the OCC's reconsideration is uncertain at this time, management does not expect the decision to have a material future impact on the Corporation's financial results.

**Texas** The Telephone Company has completed the third year of its four-year incentive regulation agreement (the Agreement), which was approved by the TPUC in November 1990. Under the terms of the Agreement the Telephone Company has agreed, over a four-year period ending November 29, 1994, to cap certain local rates, provide annual rate reductions and other benefits to customers in Texas, and upgrade the network at a cost of approximately \$329. Rate reductions and customer benefits for 1991 were approximately \$246. Additional rate reductions of \$34 and \$21 were implemented in 1992 and 1993, respectively, and additional rate reductions of approximately \$146 will be implemented in 1994.

The Agreement also provides an earnings-sharing mechanism designed to encourage efficiency and innovation by the Telephone Company. Revenue sharing amounts for 1991 and 1992 were refunded to customers in 1993, with no material impact on the Corporation's financial results. Management expects that sharing for 1993, if any, will be minimal.

In 1991, the Agreement was appealed through the courts, and, in February 1993, the Texas Court of Appeals (Appeals Court) upheld the Agreement, but found that the TPUC incorrectly applied laws on the treatment of federal income tax benefits related to disallowed expenses and directed the matter back to the TPUC for resolution. In August 1993, the Telephone Company and opposing intervenors filed appeals in the Texas Supreme Court, and the matter is pending.

In October 1992, the Office of Public Utility Counsel (OPUC) filed a petition for inquiry into the rates of the Telephone Company, alleging that the Telephone Company had realized excess annual earnings of approximately \$234, which the sharing mechanism failed to capture. The Telephone Company filed a motion to dismiss in November 1992. In July 1993, TPUC granted the Telephone Company's motion to dismiss.

**Postretirement Benefits Other Than Pensions** The adoption of Statement No. 106 for ratemaking purposes has been addressed by regulatory authorities in most of the Telephone Company's state jurisdictions. See Note 2 to the financial statements for additional information on Statement No. 106. Texas and Arkansas, through commission order, and Kansas, through stipulation and commission order, have agreed to accrual accounting for postretirement benefit expenses, with some funding requirements. In Missouri, the MPSC has ordered

continued pay-as-you-go treatment for postretirement benefit expenses. The Telephone Company intends to appeal this order. In Oklahoma, the OCC has not ruled on the issue, although OCC staff has recommended accrual accounting for postretirement benefit expenses, with some funding requirements.

An FCC order issued in December 1991 required all local exchange carriers to use the amortization method for recognition of the transition benefit obligation. In June 1992, the Telephone Company asked the FCC for the ability to increase its price caps to take into account the incremental interstate costs resulting from the accrual accounting required by Statement No. 106 (referred to as exogenous treatment). In January 1993, the FCC issued an order denying exogenous treatment for these incremental costs, but did not preclude the seeking of exogenous treatment of the transition benefit obligation in a separate filing in 1993. In February 1993, the Telephone Company joined with other local exchange carriers in an appeal of the January 1993 FCC order. In April 1993, the Telephone Company filed tariffs with the FCC requesting exogenous treatment of the transition benefit obligation. In June 1993, the FCC allowed the proposed rates to go into effect on July 1, 1993, subject to further investigation which could result in future refunds for all or part of the amount attributable to the transition benefit obligation. Potential refunds are currently being accrued by the Telephone Company; however, any future refunds are not expected to have a material impact on the Corporation's financial results.

### Competition

Competition is growing in the telecommunications industry. Regulatory and court decisions have expanded the number of alternative service providers offering telecommunications services. Technological advances have expanded the types and uses of services and products available. Accordingly, the Corporation faces increasing competition in significant portions of its business.

The Telephone Company currently faces competition from, but not limited to, competitive access providers (CAPs), private networks, residential multi-tenant services, interexchange carriers, cellular providers, resellers and providers of telecommunications equipment. CAPs typically build fiber optic "rings" throughout large metropolitan areas to provide transport services (generally high-speed data) for large business customers and interexchange carriers. Also, an increasing number of individual firms, particularly large business customers, have established their own private network systems to transmit voice and data, bypassing Telephone Company facilities. The extent of the economic incentive to bypass the local exchange network depends upon local exchange prices, access charges, regulatory policy and other factors. End user charges ordered by the FCC are designed to mitigate the

effect of system bypass.

Recent regulatory rulings have sought to expand competition for special and switched access services. Special access refers to a dedicated transmission path, used primarily by large business customers and long-distance carriers, which does not involve switching at the local exchange carrier central office. Switched access refers to the link between local exchange carriers' switching facilities and long-distance carriers' networks; switched access transport is one component of this process. In October 1992, the FCC released an order requiring large local exchange carriers, including the Telephone Company, to file tariffs permitting independent parties to physically collocate (i.e., locate) their equipment within local exchange carrier central offices for purposes of providing certain special access services. Local exchange carriers were also required to work out virtual collocation agreements for central offices where there is insufficient space for physical collocation. Virtual collocation involves a set of technical and pricing rules intended to position the interconnector as if its equipment were located in the central office. Tariffs were filed in February 1993, and became effective in June 1993. In November 1992, the Telephone Company joined with 11 local exchange carriers in a petition filed with the FCC to stay the physical collocation requirement, and also filed a separate petition to stay the virtual collocation requirement. After denial of the petitions, the Telephone Company and several other local exchange carriers filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit. Oral arguments were presented in February 1994.

In September 1993, the FCC released an order essentially imposing the same collocation requirements for switched access transport services as for special access services. In November 1993, the Telephone Company and other local exchange carriers filed an appeal of that order as well. Switched access transport collocation tariffs were filed in November 1993, and became effective in February 1994.

State regulatory commissions are also addressing issues pertaining to CAPs. In Texas, the TPUC was asked to determine whether CAPs must first obtain a certificate of convenience and necessity before providing certain intrastate services. In response, the TPUC adopted a change to the definition of local exchange service that would allow CAPs to provide certain intrastate services without specific TPUC approval. The Telephone Company is appealing this decision. In February 1993, the TPUC denied a petition filed by a CAP seeking intrastate collocation, rate unbundling and the elimination of resale restrictions in Telephone Company tariffs, and indicated it would address these issues in separate proceedings. In Missouri, CAPs are permitted to provide certain services, including special access and interexchange and intraexchange private line services, upon a showing of financial viability

The Corporation's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds and real estate.

Net pension cost is composed of the following:

	1993	1992	1991
Service cost—benefits earned during the period	\$ 131.1	\$ 126.5	\$ 116.0
Interest cost on projected benefit obligation	428.3	399.5	382.8
Actual return on plan assets	(1,019.9)	(312.0)	(1,545.1)
Other—net	498.7	(139.8)	988.5
Net pension cost (credit)	\$ 38.2	\$ 74.2	\$ (57.8)
Amount capitalized in property, plant and equipment	\$ 1.5	\$ 11.5	\$ (5.5)

The following table sets forth the pension plans' funded status and amounts recognized as other assets in the Corporation's Consolidated Balance Sheets as of December 31:

	1993	1992
Fair value of plan assets	\$7,507.9	\$6,970.2
Less: Actuarial present value of projected benefit obligation	6,319.5	5,772.2
Plan assets in excess of projected benefit obligation	1,188.4	1,198.0
Unrecognized prior service cost	785.5	744.6
Unrecognized net gain	(867.4)	(591.1)
Unamortized transition asset	(849.3)	(930.7)
Prepaid pension cost	\$ 257.2	\$ 420.8

Significant assumptions used in developing pension information include:

	1993	1992	1991
Assumed discount rate for determining projected benefit obligation	7.25%	7.5%	7.5%
Assumed long-term rate of return on plan assets	8.0%	8.0%	7.75%
Assumed composite rate of compensation increase	4.6%	4.6%	4.6%

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

The actuarial estimate of the accumulated benefit obligation does not include assumptions about future compensation levels. The accumulated benefit obligation as of December 31, 1993, was \$5,815.0, of which \$5,197.8 was vested. At December 31, 1992, these amounts were \$5,324.1 and \$4,804.2, respectively.

In December 1993 and 1992, under the provisions of Section 420 of the Internal Revenue Code, the Corporation transferred \$123.9 and \$114.5, respectively, in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by the Corporation.

**Supplemental Retirement Plans** The Corporation also provides senior and middle management employees with nonqualified, unfunded supplemental retirement and savings plans. The plans allow employees to defer and invest portions of their current compensation for later payment, and the Corporation matches a percentage of the compensation deferral according to thresholds specified in the plans. Expenses related to these plans were \$66.8, \$63.1 and \$52.3 in 1993, 1992 and 1991, respectively. Liabilities of \$483.4 and \$412.9 related to these plans have been included in other noncurrent liabilities in the Corporation's Consolidated Balance Sheets at December 31, 1993 and 1992, respectively.

**Voluntary Retirement Programs** As a result of a March 1992 agreement with the Communications Workers of America (CWA), the Telephone Company offered a limited early retirement plan to designated nonmanagement employees which included incentives affecting service pension eligibility and amounts. Approximately 1,200 nonmanagement employees participated in this offer. The plan resulted in a charge to 1992 net income of approximately \$24.

In 1991, the Corporation amended the pension plan for management employees and offered incentives for managers to retire or resign effective December 30, 1991. Approximately 3,700 managers participated in the program in 1991. The voluntary management retirement program resulted in a charge to 1991 net income of approximately \$30.

**Postretirement Benefits** The Corporation provides certain medical, dental and life insurance benefits to substantially all retired employees. Effective January 1, 1993, the Corporation adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106), which requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits. Prior to the adoption of Statement No. 106, the Corporation expensed retiree medical benefits when claims were incurred.

In implementing Statement No. 106, the Corporation immediately recognized an accumulated obligation for postretirement benefits (transition obligation) in the amount of \$2,861.2 and a related deferred income tax benefit of \$1,013.4. The resulting 1993 charge to net income of \$1,847.8, or \$3.08 per share, is included in the cumulative effect of changes in accounting principles in the Consolidated Statement of Income.

In accordance with Statement No. 71, a regulatory asset associated with the transition obligation was not recorded by the Telephone Company.

## Notes to Consolidated Financial Statements. continued

Dollars in millions except per share amounts

Postretirement benefit cost is composed of the following for the year ended December 31, 1993:

	Health	Life Insurance	Total
Service cost—benefits earned during the period	\$ 43.1	\$ 5.0	\$ 48.1
Interest cost on accumulated postretirement benefit obligation (APBO)	212.3	19.3	231.6
Actual return on assets	(10.4)	(17.8)	(28.2)
Other—net	1.4	(5.0)	(3.6)
Postretirement benefit cost	\$246.4	\$ 1.5	\$247.9

Expense recognized under the claims incurred method would have been approximately \$129.5 for 1993. In 1992 and 1991, the cost of providing these postretirement benefits was \$104.9 and \$97.2, respectively.

In connection with the 1992 collective bargaining agreements negotiated between subsidiaries of the Corporation and the CWA, the Corporation established collectively bargained Voluntary Employee Beneficiary Association (CBVEBA) trusts to fund postretirement benefits. In March 1993, the Corporation contributed \$135.5 into the CBVEBA trusts to be ultimately used for the payment of postretirement benefits. The Corporation also funds postretirement life insurance benefits at an actuarially determined rate. Assets consist principally of stocks and U.S. government and corporate bonds.

The following table sets forth the plans' funded status and the amount included in postemployment benefit obligation in the Corporation's Consolidated Balance Sheet as of December 31, 1993:

	Health	Life Insurance	Total
Retirees	\$1,785.9	\$ 166.9	\$1,952.8
Fully eligible active plan participants	241.8	19.6	261.4
Other active plan participants	800.4	85.9	886.3
Total APBO	2,828.1	272.4	3,100.5
Fair value of plan assets	(145.9)	(296.6)	(442.5)
APBO in excess of plan assets	2,682.2	(24.2)	2,658.0
Unrecognized net gain (loss)	141.7	(6.9)	134.8
Accrued (prepaid) postretirement benefit	\$2,823.9	\$ (31.1)	\$2,792.8

The APBO was determined using an assumed discount rate of 7.25 percent, a rate of future compensation increases of 4.6 percent, and an expected long-term rate of return on plan assets of 8.0 percent. The assumed medical cost trend rate in 1994 is approximately 10.5 percent, decreasing gradually to 5.5 percent in 2004, prior to adjustment for cost-sharing provisions of the plan for active and certain recently retired employees. The assumed dental cost rate in 1994 is 7.0 percent reducing to 5.0 percent in 2002. The discount rate used in determining the postretirement benefit cost is 7.5 percent. Raising the annual medical and dental cost trend rates by one percentage point increases the APBO as of December 31, 1993 by \$206.4 and the net

periodic postretirement benefit cost for the year ended December 31, 1993 by approximately \$18.5.

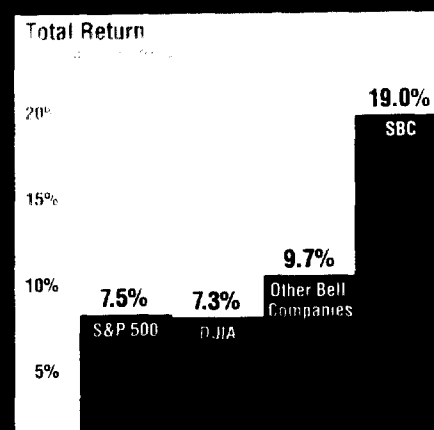
**Postemployment Benefits** Under its benefit plans, the Corporation provides employees varying levels of disability pay, workers' compensation and medical benefits under specified circumstances. Effective January 1, 1993, the Corporation adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Post-employment Benefits" (Statement No. 112). Statement No. 112 requires accrual of these postemployment benefits at the occurrence of an event that renders an employee inactive or, if the benefits ratably vest, over the vesting period. These expenses were previously recognized as the claims were incurred. A charge to net income of \$65.5, or \$.11 per share, after a deferred tax benefit of \$36.1, is included in the cumulative effect of changes in accounting principles in the 1993 Consolidated Statement of Income. Management does not anticipate that Statement No. 112 will materially affect ongoing postemployment benefit expense.

### 3. Income Taxes

The Corporation adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement No. 109) effective January 1, 1993. In adopting Statement No. 109, the Corporation adjusted its net deferred income tax liability for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, computed based on provisions of the enacted tax law. Financial statements prior to January 1, 1993, have not been restated to apply the provisions of Statement No. 109. The cumulative effect of adopting Statement No. 109 as of January 1, 1993 was to decrease net income for 1993 by \$213.9, or \$.36 per share, resulting primarily from the establishment of a deferred tax liability associated with certain prior acquisitions not related to the Telephone Company. The adoption of Statement No. 109 had no material effect on pre-tax income.

As a result of implementing Statement No. 109, the Telephone Company recorded a \$431.4 net reduction in its deferred tax liability. This reduction was substantially offset by the establishment of a net regulatory liability in accordance with Statement No. 71, with minimal effect on net income. The net regulatory liability recognizes the differences between the recording of income taxes for financial reporting purposes and recovery of those taxes through telephone service rates. Amounts comprising the net liability will be amortized over the regulatory lives of the associated assets. Future regulatory proceedings may affect the period in which these amounts are recognized in net income.

# Performance + Potential



Solid performance: the total return on a Southwestern Bell investment in 1992 was 19.0 percent.

Bright potential: cellular and Telmex are the engines of our growth.

ars in millions except per share amounts

## 2. Employee Retirement Benefits

**Pensions** Substantially all employees of the Corporation are covered by noncontributory pension and death benefit plans. The pension benefit formula used in the determination of pension cost is based on a flat dollar amount per year of service according to job classification for nonmanagement employees, and a stated percentage of adjusted career income for management employees.

The Corporation's objective in funding the plans, in combination with the standards of the Employee Retirement Income Security Act of 1974 (as amended), is to accumulate funds sufficient to meet its benefit obligations to employees upon their retirement. Contributions to the plans are made to a trust for the benefit of plan participants. Plan assets consist primarily of stocks, U.S. government and domestic corporate bonds and real estate.

Net pension cost and certain assumptions are as follows:

	1992	1991	1990
Service cost — benefits earned during the period	\$ 126.5	\$ 116.0	\$ 99.5
Interest cost on projected benefit obligation	399.5	382.8	342.4
Actual return on plan assets	(312.0)	(1,545.1)	149.9
Other — net	(139.8)	988.5	(658.9)
Net pension cost (credit)	\$ 74.2	\$ (57.8)	\$ (67.1)
Amount capitalized in property, plant and equipment	\$ 11.5	\$ (5.5)	\$ (5.7)
Assumed discount rate for determining pension cost	7.5%	7.5%	7.5%
Assumed long-term rate of return on plan assets	8.0%	7.75%	7.5%
Assumed composite rate of compensation increase	4.6%	4.6%	6.7%

The following table sets forth the pension plans' funded status and amounts recognized as other assets in the Corporation's Consolidated Balance Sheets as of December 31:

	1992	1991
Fair value of plan assets	\$6,970.2	\$ 7,130.0
Less: Actuarial present value of projected benefit obligation	5,772.2	5,160.7
Plan assets in excess of projected benefit obligation	1,198.0	1,969.3
Unrecognized prior service cost	744.6	437.2
Unrecognized net gain	(591.1)	(807.3)
Unamortized transition asset	(930.7)	(1,012.1)
Prepaid pension cost	\$ 420.8	\$ 587.1

The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to previously rendered employee service. It is measured based on assumptions concerning future interest rates and employee compensation levels. Should actual experience differ from the actuarial assumptions, the benefit obligation will be affected.

The actuarial estimate of the accumulated benefit obligation does not include assumptions about future compensation levels. The accumulated benefit obligation as of December 31, 1992, was \$5,324.1, of which \$4,804.2 was vested. At December 31, 1991, these amounts were \$4,988.9 and \$4,479.6, respectively.

In December 1992, under the provisions of Section 420 of

Internal Revenue Code, the Corporation transferred \$114.5 in pension assets to a health care benefit account for the reimbursement of retiree health care benefits paid by the Corporation during 1992.

**Supplemental Retirement Plans** The Corporation also provides senior and middle management employees with nonqualified, unfunded supplemental retirement plans. The plans allow employees to defer and invest portions of their current compensation for later payment, and the Corporation matches a percentage of the compensation deferral according to the thresholds specified in the plans. Expenses related to these plans were \$63.1, \$52.3 and \$31.7 in 1992, 1991 and 1990, respectively. Liabilities of \$412.9 and \$241.0 related to these plans have been included in other noncurrent liabilities in the Corporation's Consolidated Balance Sheets at December 31, 1992 and 1991, respectively.

**Voluntary Retirement Programs** In 1991, the Corporation amended the pension plan for management employees and offered incentives for managers to retire or resign effective December 30, 1991. Approximately 3,700 managers participated in the program in 1991. Plan assets of \$864 were designated for the settlement of the pension obligations of those managers who elected to receive their benefits in lump sum amounts. The voluntary management retirement program resulted in a charge to 1991 net income of approximately \$38.

As a result of a March 1992 agreement with the Communications Workers of America, the Telephone Company offered a limited early retirement plan to designated nonmanagement employees. Five years were added to employees' age and net credited service to determine service pension eligibility. Eligible employees who elected to participate in the plan had three years added to their actual age and service for computation of pension amounts, received pension band increases ranging from 3 percent to 9 percent, depending on their age, and a pension supplement ranging from 5 percent to 25 percent, based upon years of service. Approximately 1,200 nonmanagement employees participated in this offer. The plan resulted in a first-quarter 1992 charge to net income of approximately \$24.

**Postretirement Benefits** The Corporation provides certain medical, dental and life insurance benefits to substantially all retired employees. Retiree health care benefits are recognized as an expense as claims are incurred. Life insurance benefit costs are actuarially determined and are accrued and funded annually over the employees' active working lives. In 1992, 1991 and 1990, the cost of providing these postretirement benefits was \$104.9, \$97.2 and \$89.6, respectively.

Effective January 1, 1993, the Corporation will be required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (Statement No. 106). Statement No. 106 requires accrual of actuarially determined postretirement benefit costs as active employees earn these benefits.

It is the intent of the Corporation, in implementing Statement No. 106, to recognize immediately a reduction in net income for the accumulated obligation for postretirement benefits, net of the fair value of plan assets (transition obligation). Management